NAIC 2023 FALL NATIONAL MEETING ORLANDO

Date: 11/15/2023

2023 Fall National Meeting
Orlando, Florida

Statutory Accounting Principles (E) Working Group
Friday, December 1, 2023
10:00 AM - 12:00 PM ET

OVERVIEW AGENDA

HEARING AGENDA

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1. SAPWG Hearing – Adoption of Minutes—*Dale Bruggeman (OH)*	1	1-5
2. SAPWG Hearing – Review of Comments on Exposed Items—*Dale Bruggeman (OH)*		
• Ref #2019-21: Principles-Based Bond Definition	2	6-7
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• Ref #2022-14: New Market Tax Credits	9	10-13
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3. SAPWG Hearing 2 – Review of Comments on Exposed Items—*Dale Bruggeman (OH)*		
• INT 23-04: Life Reinsurance Liquidation Questions	TBD	TBD
• Ref #2023-23: Residuals in Preferred Stock and Common Stock	TBD	TBD
Comment Letters	TBD	TBD

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OVERVIEW AGENDA

MEETING AGENDA

	Meeting Page Number	Attachment
4. SAPWG Meeting – Maintenance Agenda – Pending List—*Dale Bruggeman (OH)*		
• Ref #2023-24: ASU 2016-13, Measurement of Credit Losses on Financial Instruments,	1	A
• Ref #2023-25: ASU 2023-03, Amendments to SEC Paragraphs	3	B
• Ref #2023-26: ASU 2023-06, Codification Amendments in Response to the SEC's Disclosure Update	3	C
• Ref #2023-27: ASU 2023-04, Amendments to SEC Paragraphs—Cryptocurrency	4	D
• Ref #2023-28: Collateral Loan Reporting	4	E
• Ref #2023-29: IMR / AVR Preferred Stock	5	F
• Ref #2023-30: Admissibility Requirements of Investments in Downstream Holding Companies	6	G
• Ref #2023-31: Model 630 Mortgage Guaranty Insurance	6	H
5. Consideration of Items on the Active Maintenance Agenda		
• Ref #2023-03: New C-2 Mortality Risk Note	7	I
6. SAPWG Meeting – Any Other Matters Brought Before the Working Group —*Dale Bruggeman (OH)*		
• Review of U.S. GAAP Exposures	7	J
• Life Actuarial (A) Task Force Coordination Memo	7	K
• IAIS Audit and Accounting Working Group	8	None

- **Comment Deadline for Ref #2019-21 – Monday, January 22, 2024**
- **Comment Deadline for all other items – Friday, February 9, 2024**

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Statutory Accounting Principles (E) Working Group
Hearing Agenda
December 1, 2023

ROLL CALL

Dale Bruggeman, Chair	Ohio	Judy Weaver	Michigan
Kevin Clark, Vice Chair	Iowa	Doug Bartlett	New Hampshire
Sheila Travis	Alabama	Bob Kasinow	New York
Kim Hudson	California	Diana Sherman	Pennsylvania
William Arfanis/Michael Estabrook	Connecticut	Jamie Walker	Texas
Rylynn Brown	Delaware	Doug Stolte/David Smith	Virginia
Cindy Andersen	Illinois	Amy Malm/Elena Vetrina	Wisconsin
Melissa Gibson/Stewart Guerin	Louisiana		

NAIC Support Staff: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden

Note: This meeting will be recorded for subsequent use.

The Statutory Accounting Principles (E) Working Group met in regulator-to-regulator sessions on Nov. 27. This regulator session was pursuant to the NAIC Open Meetings Policy paragraph 3 (discussion of specific companies, entities or individuals) and paragraph 6 (consultations with NAIC staff related to NAIC technical guidance of the *Accounting Practices and Procedures Manual*). No actions were taken during these meetings as the discussion previewed to preview the Fall National Meeting agendas and discussed other items with NAIC staff pursuant to the NAIC open meeting policy.

REVIEW AND ADOPTION OF MINUTES

1. Summer National Meeting **(Attachment 1)**
2. Sept. 21, 2023 **(Attachment 2)**
3. Oct. 23, 2023 **(Attachment 3)**
4. Oct. 24, 2023, E-Vote **(Attachment 4)**
5. Oct. 31, 2023, E-Vote **(Attachment 5)**

REVIEW of COMMENTS on EXPOSED ITEMS

The following items are open for discussion and will be considered separately.

1. Ref #2019-21: Principles-Based Bond Definition
2. Ref #2022-12: Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement
3. Ref #2022-14: New Market Tax Credits
4. Ref #2023-14: *SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve*
5. Ref #2023-15: IMR and AVR Specific Allocations
6. Ref #2023-16: Schedule BA Reporting Categories
7. Ref #2023-17: Short-Term Investments
8. Ref #2023-22: Actuarial Guideline 51 and Appendix A-010 Interaction

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Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2019-21 SSAP No. 21R (Julie)	**Principles-Based Bond Definition**	**6 – SSAP No. 21R 7 – Issue Paper**	**Comments Received**	**IP – 2**

Summary:
During the 2023 Summer National Meeting, the Working Group exposed revisions to *SSAP No. 21R—Other Admitted Assets* to provide guidance for debt securities that do not qualify as bonds as well as to detail the accounting for residual tranches.

The exposure also included the bond issue paper to detail the historical discussions on the bond project.

Interested Parties Comments:
The Working Group exposed revisions to SSAP No. 21R for debt securities that do not qualify as bonds, including the accounting for residual tranches, as well as an Issue Paper to detail historical discussions on the bond project. Interested parties have no comments on the Issue Paper.

Interested parties met with NAIC Staff to discuss SSAP No. 21R issues, other than the accounting for residual tranches, and agreed there are issues that need clarification and/or consistency between SSAP No. 21R, SSAP No. 26R, SSAP 43R, and the recently adopted language on the definition of residual tranches in SSAP No. 48.

As these are nuanced and interrelated changes still subject to the best approach in achieving clarification and/or consistency, it was agreed it was most efficient to work through the changes collaboratively especially given the significant agreement on the end results that are trying to be achieved. As part of this collaboration, interested parties would also like to discuss with NAIC staff and regulators the concept of audit requirements for residual tranches. The remainder of interested parties' comments relate to the proposed accounting for residual tranches.

In response to the residual accounting proposal forwarded by regulators, interested parties understand concerns about accreting investments above this initial cost, but also believe there may be a more reasonable accounting method for these investments versus the proposed cost recovery method.

Residual Tranche Accounting Alternatives (Paragraph 31)
Interested parties noted that the example provided by regulators showed a risky asset accreting high yields for multiple periods even if no cash is received, which is concerning from the point of view of accounting conservatism. While this example may raise alarms to regulators, it may not be representative of residual tranche investments in the industry currently. Many residual tranche investments generate positive cash flows period after period, by design and in practice. Additionally, since the risk of residual tranches is already being addressed through risk-based-capital regulation, we hope that accounting may be formulated to be reasonable on its own, without attempting to address risk through a second channel.

Interested parties initially proposed the effective yield method of accounting, which regulators rejected, noting in some cases it could lead to income generation which was deemed to be aggressive or premature. Regulators then proposed cost recovery method of accounting, which interested parties believe is too punitive in cases where healthy cash generating assets would be written down to zero before recognizing any income.

We hope that a third alternative can be reached which incorporates these two principles:

- Assets cannot be accreted above original (or subsequent) consideration paid; and

- Assets may use a systematic approach to record investment income to the extent cash is received.

In industry discussions it became clear that variety and complexity exists which impacts this topic including:

- Underlying collateral assets span from loans to mortgages to real estate to equity to lease backed assets, each case which may suggest a different expected earnings and cash flow pattern.

- Certain servicers clearly delineate the amount of principal vs. interest cash flows generated by the collateral that are allocated to each tranche of investment. Interested parties are currently reaching out to investment advisors to understand whether some servicers do not provide this same level of granularity.

- Certain investments accounted for currently under the equity method, may prospectively be classified as residuals. Currently under the equity method, distributions are allocated between return of capital and return on capital.

Interested parties have been discussing several alternatives, two of which are described below: servicer reports and capital statements and an effective yield method with a cap. Both alternatives will also use a lower of adjusted cost or fair value concept and appropriate treatment for other than temporary impairments (OTTI). Interested parties would like the opportunity to discuss these alternatives with the Working Group to determine whether one or both of these approaches may be considered a reasonable alternative to the cost recovery method.

<u>Servicer Reports or Capital and Distribution Statements</u>
Servicer reports generally attribute every cash distribution into cash receipts from the interest payment on the collateral versus principal paydowns on the collateral. These cash distributions are allocated to each tranche of investment (including the residual) based upon a priority of payments schedule formalized in the operative documents for the respective securitization. Similarly, capital and distribution statements schedule out the return on capital and the return of capital. Insurers applying the equity method are accustomed to the appropriate timing to record a distribution as a dividend on the income statement under the equity method of accounting.

One alternative is to guide companies to refer to servicer reports or capital and distribution statements to recognize income equal to the portion of the residual interest's cash disbursements generated from interest receipts on the collateral pool. This method is simple, reliable and supportable.

<u>Effective Yield Method with a Cap</u>
Another alternative which could be applied is an effective yield method with a cap on income, such that income could only be recognized to the extent that there is a receipt of cash. As part of this alternative, the carry value of this asset may not be accreted above the cost of consideration paid. A detailed example of how this method would compare to effective yield method and cost recovery method has been drafted, noting that this third alternative would generally – if not always – result in a period-over-period carry value which is lower than the effective yield method and higher than the cost recovery method, meaning it represents a middle road, as expected. For this proposal, initial draft language has been presented for discussion as well.

We would like to offer the following principles for discussion, with the intent of replacing paragraph 31 in its entirety. Should this concept be acceptable to regulators, interested parties could also suggest actual SSAP language to accomplish what is described below.

Each period the book adjusted carrying value and interest income would be determined in the following manner:

1. At the beginning of the period, calculate the book yield as the discount rate that equates the then current best estimate of cash flows projections to the cost basis of the asset.

2. The maximum amount of interest income will be the product of the book yield and beginning of period book adjusted carrying value.

3. If cash distributed to the asset is less than the maximum amount of interest income:

   - Interest income equals total amount of cash distributions.

   - Book adjusted carrying value of the asset is not decreased.

4. If cash distributed to the asset is greater than the maximum amount of interest income:

   - Interest income equals the maximum amount calculated above.

   - Book adjusted carrying value is decreased by the amount of cash distributions in excess of the maximum amount of interest income.

Both a servicer report/capital and distribution statement method and an effective yield method with a cap would ensure that the carrying value is not accreted above cost and would allow for income recognition which is supported by cash receipts.

Comment on OTTI (Paragraphs 30 and 32)
It appears that the most recent draft of residual tranche guidance was adjusted to depart from standard lower of cost or market (LOCOM) accounting to automatically record any decrease of fair value below adjusted cost to be an other-than-temporary impairment, rather than capturing temporary reductions as unrealized losses. Interested parties generally would expect that LOCOM and OTTI processes would remain consistent for this asset class as it would be applied to other asset classes. We believe the following language, currently in SSAP 43R paragraph 26.c., should be moved to this standard:

> "For residual tranches or interests captured in scope of this statement, all reporting entities shall report the item on Schedule BA: Other Long-Term Invested Assets at the lower of amortized cost or fair value. Changes in reported value from the prior period shall be recorded as unrealized gains or losses. For reporting entities that maintain an AVR, the accounting for unrealized gains and losses shall be in accordance with SSAP No. 7-Asset Valuation Reserve and Interest Maintenance Reserve."

Additionally, the language from SSAP No. 48 paragraphs 18 and 19 addresses the impairment process of an equity method investment and SSAP No. 43R, paragraphs 34 and 36, addresses the impairment process of a residual interest in a beneficial interest.

As noted, many alternatives are being discussed by interested parties. We have shared examples of our latest thinking above in order to continue a productive discussion with regulators on this important topic. We look forward to continuing to engage with regulators and stand ready to answer any questions you may have on this topic.

Recommendation:
NAIC staff has had interim discussions on the measurement method for residual tranches and recommends that the Working Group expose a revised SSAP No. 21R to incorporate the "Effective Yield with a Cap" method proposed by industry as the measurement method for residuals along with a practical expedient that allows use of the "Cost Recovery Method". This is proposed to have a shortened comment period deadline of Jan. 22, 2024, to allow for adoption consideration prior to the Blanks (E) Working Group adoption consideration of the Schedule BA revisions from the bond proposal.

Industry initially recommended the effective yield method, however, pursuant to the subsequent discussions with industry, it was identified that some companies would prefer the "cost recovery method" (where are distributions received reduce the BACV prior to the recognition of interest income) due to the extensive work and non-automation that would be required for the "Effective Yield with a Cap" method. As the cost-recovery method is a more conservative method, NAIC staff has proposed revisions to SSAP No. 21R to incorporate the "Effective Yield with a Cap Method" but to also provide a practical expedient that companies

can elect to use the "Cost Recovery Method." The revisions detail limitations if electing the practical expedient, which require its use for all residual holdings and a prospective approach for new acquisitions only, if a company wanted to move away from the cost recovery method once its elected.

With this revision, other aspects of the residual guidance, including the other-than-temporary impairment guidance, (which was also noted by interested parties') has been revised.

Although the cost-recovery method is more conservative in balance sheet / asset recognition, it does fail to recognize income from the investment holding until the cost basis has been recovered, which is an approach that is not followed for most investment holdings. As such, the general recommendation supports industry's proposed "Effective Yield Method with a Cap" for the following reasons:

1) It eliminates the practice in which the BACV for residuals increases beyond original consideration.

2) It incorporates a process that allows for recognition of interest income based on the calculated effective yield, with amounts received in excess of the effective yield will be reflected as a return of capital, reducing the BACV of the residual interest.

The effective yield method with a cap is supported over the use of servicer reports / capital distribution statements as not all investors may receive reports and the reports may have various calculations in determining whether the amount received reflects interest or capital distributions. With the effective yield with a cap method, a consistent calculation shall be in place for all reporting entities.

As noted in the recommendations, with subsequent discussions with industry, it was noted that there were some companies that would prefer the "cost-recovery" method (detailed in past exposure) as the process to complete the "effective yield method with a cap" would require extensive work and non-automation, particularly when reporting entities only held a limited number of residuals.

In addition to the measurement method, revisions have been proposed to the other-than-temporary impairment guidance. The original guidance proposed an OTTI to be recognized when fair value was below amortized cost. This was drafted with the presumption that a decline in the fair value of the residual represented defaults in the underlying collateral that would be assumed by the residual tranche. However, in considering industry's comments and that market factors could influence fair value, the guidance has been revised to require OTTI to be assessed on an ongoing basis and shall be considered to have occurred if the present value of expected cash flows is less than the BACV, with a realized loss recognized for the difference between the two. This language is consistent with provisions in SSAP No. 43R.

NAIC staff also notes that no comments were received on the bond project issue paper. As discussions on SSAP No. 21R are still ongoing, NAIC staff does not recommend formal action to adopt at this time, but rather, that NAIC staff be directed to continue to update the issue paper with the SSAP No. 21R discussion and subsequently exposed.

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Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-12 (Robin)	**Review of INT 03-02: Modification to an Existing Intercompany Pooling Arrangement**	**8 – Agenda Item 9 – INT 03-02**	**Comments Received**	**IP – 5 IP Org chart – 18**

<u>*Summary:*</u>
On Aug. 13, 2023, the Working Group re-exposed the intent to nullify INT 03-02 and directed NAIC staff to work with industry regarding some of their comments and examples to be submitted by industry.

The nullification is proposed as INT 03-02 is inconsistent with *SSAP No. 25—Affiliates and Other Related Parties* guidance regarding economic and non-economic transactions between related parties. The guidance in INT 03-02 can result with, in essence, unrecognized gains (dividends) or losses through the using the statutory book valuation when using assets (bonds) to make payments to affiliates for modifications to existing intercompany reinsurance pooling agreements. Treatment of transfers of assets between affiliates should be consistent for all intercompany transactions and there is not a compelling need to be different when valuing assets for intercompany reinsurance transactions.

<u>*Interested Parties' Comments:*</u>
The Working Group re-exposed the intent to nullify INT 03-02 and directed NAIC staff to work with industry regarding some of their comments and examples to be submitted by industry.

In response to the Working Group's request for examples of a modification to an existing intercompany pooling arrangement, interested parties identified the two most common modifications to intercompany pooling arrangements:

- the combination of two intercompany pooling arrangements following the acquisition by an insurance group of another insurance company (or group of companies), and
- the removal of an insurance subsidiary from an intercompany pooling arrangement in preparation for the sale of the subsidiary (discontinued line of business)

These two types of modifications may involve the movement of a significant amount of assets and liabilities to re-balance the capital and surplus of the insurance subsidiaries involved to manage the impact to a targeted RBC for the members of the intercompany pooling arrangement. A less common modification is the re-capitalization of the members of the pooling arrangement to adjust for changes in investment strategy over time. Because this latter type of transaction usually involves the movement of cash, not assets and liabilities, we are not including an example as the effects are fairly straight forward.

For purposes of the Example 1 below, please see the attached Organization Chart – Pre-Acquisition.

Example 1 is the combination of <u>two intercompany pools following the acquisition of a group of companies:</u>

- Insurance Group (Holdco) A acquires Insurance Group (Holdco) B.
- Insurance Group A and Insurance Group B have the following intercompany pools:

<u>Intercompany Pool A:</u>	<u>Pool participation percentage:</u>
Entity A1	70%
Entity A2	26%
Entity A3	4%

<u>Intercompany Pool B:</u>	<u>Pool participation percentage:</u>

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Entity B1	60%
Entity B2	22%
Entity B3	18%

Upon completion of the acquisition, the acquired companies are owned by a common holding company for this example (please see attached Organizational Chart Post Acquisition – Example 1).

- Intercompany Pool A modifies its pooling arrangement, brings Intercompany Pool B into Intercompany Pool A and resets the pool participation percentages retroactive to January 1 of the current year as follows:

Intercompany Pool A:	Pool participation percentage:
Entity A1	40%
Entity A2	20%
Entity A3	3%
Entity B1	22%
Entity B2	8%
Entity B3	7%

- In this example, each entity's pool participation percentage have been reset in order to balance future capital needs, with consideration of risk-based capital and other financial measures (e.g., IRIS ratios).

- As a result of the pooling modification, the three former Intercompany Pool B entities must transfer net assets to each of the Intercompany Pool A entities. For purposes of this example, entity B1 transfers bonds totaling $9,000,000 to entity A1 in order to support the $9,000,000 of reserves[1] transferred to entity A1.

Scenario 1:

- If bonds with a market value of $9,000,000 and an amortized cost of $8,000,000 are transferred from entity B1 to entity A1 at market value, entity B1 may or may not have to defer its gain resulting from the transfer. This will depend on whether entity A1 and entity B1 have a common insurance entity parent. For example, if entity B1 is under entity A1's ownership chain or vice-versa as shown in the attached Organizational Chart Post Acquisition – Example 1, the gain will be deferred; otherwise, the gain will be realized. In the example provided, B1 would realize the gain on the transfers of assets to A1 as the two entities are not owned by the same insurer. However, if A3 transferred assets to A1, the gain in this instance would be deferred.

- More importantly, because insurers generally hold most bond investments to maturity, the cash flows from the contractual payments over the term of the bonds will be aligned with the bonds' amortized cost, not the market value at a point in time. Because entity B1 transferred bonds with an amortized cost of $1,000,000 less than that needed to support the reserves transferred (at book value) to entity A1, entity A1 will have received a deficient amount of assets (future cashflows) as part of the modification of the intercompany pooling arrangement. This will result because entity A1 will realize cash flows closer to the $8,000,000 amortized cost of the bonds rather than the market value at the time of the pooling modification of $9,000,000.

- In addition, if entity B1 has recorded a gain in surplus as a result of the transfer of the bonds as part of the intercompany pooling modification transaction, entity B1 must treat the intercompany pooling as retroactive reinsurance pursuant to paragraph 36d of SSAP No. 62R as provided in the example.

[1] The reserves transferred would typically include loss and loss adjustment expenses and other underwriting expense reserves, net of any premiums receivable subject to the pooling arrangement.

Scenario 2:

- If bonds with a market value of $9,000,000 and an amortized cost of $10,000,000 are transferred from entity B1 to entity A1 at market value, entity A1 will have received excess assets of $1,000,000 above the reserves transferred (at book value) to entity A1, as entity A1 will realize cash flows from the $10,000,000 amortized cost of the bonds rather than the market value at the time of the pooling modification of $9,000,000. Therefore, if entity B1 is required to transfer the assets at fair value, it has essentially sent a dividend of $1,000,000 to entity A1.

Example 2 is the removal of an insurance subsidiary from an intercompany pooling arrangement in preparation for the sale of the subsidiary (discontinued line of business). For this example, please see attached Organizational Chart – Example 2:

- Entity A6 is removed from the Intercompany Pool comprised of 6 insurance subsidiaries under Holdco A (as the insurance group is discontinuing A6's lines of business and selling the entity A6).

- The intercompany pooling arrangement is modified and the pooling percentages are reset such that entity A1 absorbs A6's pooling participation (retroactive to January 1 of the current year).

- Prior to the modification, the intercompany pooling percentages are:

Intercompany Pool participant:	Pool participation percentage:
Entity A1	37%
Entity A2	14%
Entity A3	2%
Entity A4	28%
Entity A5	10%
Entity A6	9%

- After the modification, the intercompany pooling percentages are:

Intercompany Pool participant:	Pool participation percentage:
Entity A1	46%
Entity A2	14%
Entity A3	2%
Entity A4	28%
Entity A5	10%

- As a result of the pooling modification, entity A6 must transfer net assets to entity A1. For purposes of this example, entity A6 transfers bonds totaling $27,000,000 to entity A1 in order to support the reserves[2] transferred to entity A1 for the business retained by the intercompany pool.

Scenario 1:

- If bonds with a market value of $27,000,000 and an amortized cost of $26,000,000 are transferred from entity A6 to entity A1 at market value, the implications of such a transfer are the same as in Example 1. Entity A6 may or may not have to defer its gain resulting from the transfer. This will depend on whether or not entity A1 and entity A6 have a common insurance entity parent (the attached Example 2 assumes that the entities do not have a common insurance entity parent). For example, if entity was a subsidiary of entity

[2] The reserves transferred would typically include loss and loss adjustment expenses and other underwriting expense reserves, net of any premiums receivable subject to the pooling arrangement.

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A1, the gain will be deferred; otherwise, the gain will be realized. In the example provided, A6 would realize the gain on the transfers of assets to A1 as the two entities are not owned by the same insurer. However, if A3 transferred assets to A1, the gain in this instance would be deferred.

- Because entity A6 transferred bonds with an amortized cost of $1,000,000 less than that needed to support the reserves transferred (at book value) to entity A1, entity A1 will have received a deficient amount of assets (future cash flows) as part of the modification of the intercompany pooling arrangement. This will result because entity A1 will realize cash flows closer to the $26,000,000 amortized cost of the bonds rather than the market value of $27,000,000 at the time of the pooling modification.

- In addition, if entity A6 has recorded a gain in surplus as a result of the transfer of the bonds as part of the intercompany pooling modification transaction, entity A6 must treat the intercompany pooling as retroactive reinsurance pursuant to SSAP No. 62R.

Scenario 2:

- If bonds with a market value of $27,000,000 and an amortized cost of $28,000,000 are transferred from entity A6 to entity A1 at market value, entity A1 will have received excess assets of $1,000,000 above the reserves transferred (at book value) to entity A1, as entity A1 will realize cash flows from the $28,000,000 amortized cost of the bonds rather than the market value of $27,000,000 at the time of the pooling modification. Therefore, if entity A6 is required to transfer the assets at fair value, it has essentially sent a dividend of $1,000,000 to entity A1.

Recommendation:

NAIC staff notes that the examples provided by interested parties have been helpful. NAIC staff recommends that the Working Group defer action and direct NAIC staff to continue to work with interested parties on a proposal for discussion at the 2024 Spring National Meeting.

Discussions with interested parties have highlighted: 1) that they share the intent that the prior guidance in INT 03-02 should have a very limited scope; 2) differences in pricing exists for some intercompany pooling contracts; and 3) both NAIC staff and interested parties agree that the guidance is not intended to require some members of the same intercompany pool to account for the contract differently (that is some members applying retroactive accounting and some applying prospective accounting). However, more discussions are needed to resolve some of the identified issues.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2022-14 (Wil)	**New Market Tax Credits**	**10 – Agenda Item 11 – SSAP No. 93R 12 – SSAP No. 94R 13 – Other SSAPs**	**Comments Received**	**IP – 9**

Summary:

On August 13, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 93—Low-Income Housing Tax Credit Property Investments* and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits*. On September 29, 2023, Interested Parties provided NAIC staff with a comment letter on the exposed revisions to SSAP No. 93 and 94R which is detailed below.

Interested Parties' Comments:

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The Working Group exposed additional revisions made to SSAP No. 93 and SSAP No. 94R. Additionally, the Working Group directed NAIC staff to work with interested parties to draft revisions to the annual statement instructions and reporting updates.

Revisions to SSAP No. 93 – *Low-Income Housing Tax Credit Property Investments* and SSAP No. 94R – *Transferable and non-transferable State Tax Credits* and updates were made in response to comments received from interested parties.

Interested parties appreciate the opportunity to comment on the substantive revisions exposed by the Working Group for SSAP No. 93 – *Low Income Housing Tax Credit Property Investments* and SSAP No. 94 - *Transferable and Non-Transferable State Tax Credits* under item Ref #2022-14 *New Markets Tax Credits* (the Exposure). As stated in our prior comment letter on this topic, interested parties agree with having uniformity in accounting and reporting for equity and debt investments for which the return is earned primarily through tax credits. Interested parties agree that the proportional amortization method is an appropriate method to use for any type of investment (debt or equity) where the return is primarily earned through tax credits. However, we have concerns regarding the proposed adoption and scope provisions of the Exposure along with concerns that certain aspects of the Exposure could be misinterpreted which are outlined in the comments below:

SSAP No. 93 Admissibility Requirements for Ownership Interests in Tax Credit Investments
Paragraph 18 requires reporting entities to annually assess the future utilization of the unallocated tax credits associated with an entity's ownership interest in a tax credit investment project to determine if the investment can be admitted. Interested parties agree with the requirements of this paragraph to the extent that a tax credit investment meets **both** of the following criteria:

1) a reporting entity is not permitted to sell its ownership interest in a tax credit investment project to a 3rd party, and
2) the tax credits generated by the investment are not transferrable post allocation by the tax credit investment project.

If both of these criteria are met, a reporting entity's ownership interest in a tax credit investment can only be converted into allocated tax credits for use by the reporting entity and therefore, evaluation for admittance based on a reporting entity's ability to utilize the tax credits is appropriate.

Interested parties do not believe that the admissibility criteria within paragraph 18 should apply to ownership interests in tax credit investments that are unrestricted for sale (regardless of the type of tax credits that it generates and allocates) **or** for ownership interests in tax credit investments that are restricted but generate transferrable tax credits. Ownership interests in these types of tax credit investments represent investments that can be directly liquidated to satisfy policyholder obligations either through sale of the reporting entity's ownership interest in the investment (i.e., the future rights to receive tax credits that have not yet been generated and allocated by the tax credit investment) *or* sale of the transferrable tax credit post allocation. Therefore, we believe that these types of tax credit investments represent admitted assets and are fundamentally different from nonsaleable ownership interests in tax credit investments that only allocate non-transferrable tax credits.

Interested parties acknowledge that paragraphs 18(a) and 18(b) appear to provide an exception to the admissibility requirements in paragraph 18 for these types of investments:

> *18(a). Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions may admit up to the lesser of the proportional amortized cost, or fair value of the tax credits. If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.*
>
> *18(b). Tax credit investments which allocate tax credits eligible for direct payment may admit up to the lesser of the proportional amortized cost, or the estimated proceeds.*

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With respect to paragraph 18(a), interested parties disagree with the concept that if the fair value of a tax credit investment is not determinable, a reporting entity must apply the admissibility criteria within paragraph 18 because this conflicts with the impairment requirements in paragraph 25 of SSAP No. 93R, which provides guidance to ensure that a reporting entity's ownership interest in a tax credit investment would never exceed its fair value. We believe paragraph 25 of SSAP No. 93R appropriately addresses admissibility for these scenarios and therefore the language in paragraph 18(a) should be removed from the Exposure. Further, paragraph 25 requires a reporting entity to test its investment in tax credit projects for impairment annually and permits a reporting entity to estimate fair value as the present value of the future tax credits and other tax benefits that are expected to be generated by the tax credit investment discounted at a risk-free rate of return. Interested parties believe that this method provides a reasonable approximation of the fair value of a reporting entity's ownership interest in a tax credit investment, as it is based on assumptions that would be used by market participants when determining the purchase price of a similar investment (i.e., fair value is directly tied to the tax credits/benefits expected to be generated by the investment). As these types of tax credit investments are unrestricted for sale, we believe these ownership interests should be considered admitted assets and that admissibility is appropriately captured by the impairment testing requirements of paragraph 25. In addition, interest parties believe paragraph 25 also addresses admissibility for ownership interests in tax credit investments that may be restricted for sale if they allocate transferrable tax credits. This is because of the direct link between a tax credit investment's fair value and the value of the tax credits it allocates. Accordingly, in these circumstances because the tax credit allocated by the investment can ultimately be sold to a 3rd party, the impairment testing requirements of paragraph 25 also appropriately address admissibility considerations related to the tax credit investment.

With respect to paragraph 18(b), interested parties believe the meaning of "estimated proceeds" has the same meaning as fair value and represents the price that would be received by the reporting entity for its ownership interest in a tax credit investment in an orderly transaction between market participants and that wording should therefore be stricken from paragraph 18. We believe that ownership interests in tax credit investments that allocate tax credits eligible for direct payment (i.e., non-transferrable tax credits) are no different from those that allocate transferrable assets because a reporting entity can sell its ownership interest in the tax credit investment (i.e., the rights to receive tax credits that have not yet been generated and allocated by the tax credit investment). Similarly, we believe that admissibility of these tax credit investments is appropriately addressed by the impairment requirements of paragraph 25 because the fair value of a reporting entity's ownership interest in these tax credit investments is directly tied to the future tax credits and other tax benefits that are expected to be generated by the tax credit investment project.

Given these considerations, interest parties suggest the following revisions to paragraph 18; note that the proposed revisions below do not contemplate changes that may arise from the other comments discussed in this letter:

Reporting entities are required to annually assess the future utilization of the investment's current portion of unallocated tax credits against the estimated tax liabilities for both the tax year in which the tax credits can be initially utilized as well as any applicable carryback periods for a reporting entity's ownership interest in tax credit investments that meet both of the following criteria:

a. *the ownership interest in the tax credit investment is legally restricted for sale, and*
b. *the tax credits allocated to the reporting entity by the tax credit investment are not transferrable post allocation.*

~~*Based on this assessment,*~~ *For tax credit investments that meet both of these criteria*, ……………………………..

.... ~~*As an exception to the admittance assessment detailed above, if the tax credit investment allocates tax credits with the following features the reporting entity may perform a secondary assessment to determine if additional amounts of the tax credit investment may be admitted*~~*:*

~~*a. Tax credit investments which allocate tax credits which are certificated or transferable in accordance with permitted IRS or state tax provisions may admit up to the lesser of the proportional amortized cost, or fair*~~

~~*value of the tax credits. If the fair market value is not determinable, then the reporting entity may only admit the amount calculated in paragraph 18.*~~

~~b. *Tax credit investments which allocate tax credits eligible for direct payment may admit up to the lesser of the proportional amortized cost, or the estimated proceeds.*~~

SSAP No. 93 Paragraph 18 Clarifications
Interested parties also suggest clarification of key terms in paragraph 18. Based on previous dialog with the Working Group, we propose the following definitions:

1) "unallocated tax credits" - the portion of tax credits expected to be earned and allocated to the reporting entity through the investment structure.
2) "current portion" - the credits allocated within one year of the reporting period.

In addition, to avoid misinterpretation we propose that instead of assessing if the unallocated tax credits will be used over the life of the investment, that the assessment should occur over the life of the tax credit. This language aligns with the next sentence, which references if the unallocated tax credits will exceed what can be utilized under IRS or state tax provisions, the reporting entity must non-admit a portion of the investments. IRS and state tax authorities generally provide that if tax credits allocated or generated in the current year cannot be used to offset the current tax liability, they are carried forward for a specified number of years.

> "...if the reporting entity does not expect to substantially utilize the current portion of unallocated investment tax credits, the reporting entity shall perform an expanded assessment to determine the extent that it will be able to utilize all of the investment's unallocated tax credits over the life of the tax credit ~~the life of the investment~~. If assessment projections identify that the investment's unallocated tax credits will exceed what can be utilized under IRS or state tax provisions (current and carryforward periods ~~other applicable tax periods~~), the reporting entity shall nonadmit investments as necessary so that investments in scope of this statement (in aggregate) are only admitted to the extent tax credits are expected to be utilized within carryforward periods. Additionally, if the assessment indicates that the next three years of investment tax credits cannot be substantially utilized within the carryforward periods then the entire investment shall be nonadmitted."

Paragraph 18 disallows reporting entities from assuming that future operations will increase as support for the utilization of tax credits. However, interested parties assume that tax planning strategies are required when assessing the utilization of unallocated tax credits, similar to the valuation allowance requirements under SSAP No. 101. Explicitly providing this requirement prevents misinterpretation and avoids unintended fluctuations in surplus in the year credits are allocated and assessed under the guidelines in SSAP No. 101.

Retrospective Versus Prospective Adoption
Interested parties believe that applying the requirements under the revised standards upon transition should be done on a prospective basis so that no adjustments to surplus are recorded at the date of adoption. Under the prospective method, companies will analyze which of their investments meet the criteria under each standard. For SSAP No. 93 investments, the carrying book value at the date of adoption will become the starting balance, which will be used to determine future amortization under the proportional amortization method based on future tax credits and other tax benefits to be earned. Under SSAP No. 94, the requirement to record the credits at their face value should be applied to future purchases only. Otherwise, we would have to adjust the book value of those credits upon adoption due to the change in accounting for SSAP No. 94 purchased tax credits that requires recording these credits at face value rather than actual cost.

Adoption Date
Due to the level of work required to review investments for which tax credits are received to determine if they meet the criteria under SSAP No. 93, we believe that having an effective date of 1/1/25 would be more reasonable. In addition, we understand that changes to Schedule BA along with review by the NAIC's Capital Adequacy Working Group will need to take place to report the new investments in the appropriate section of the schedule. Since this

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will require additional time as well, 1/1/25 seems reasonable. Although the FASB ASU has an adoption date of 1/1/2024 for many insurers, many other insurers do not apply US GAAP and/or meet the requirements to adopt the ASU after 1/1/2024. Additionally, the accounting requirements for the new FASB ASU are different than those under the Exposure and thus, additional time to adopt the Exposure is warranted.

For SSAP No. 94 tax credits, since the adoption of this standard requires minimal changes to the annual statement as these are reported as other-than-invested assets and not as investments, an effective date of 1/1/25 with early adoption allowed will be beneficial for industry. Early adoption will allow insurers that purchase federal tax credits to apply the proposed accounting under SSAP No. 94. Otherwise, there may be questions of admissibility for new instruments purchased, since today's SSAP No. 94 only addresses state tax credits.

SSAP No. 94 Scope
There have been some questions about whether there is enough clarity about the types of tax credits that fall within SSAP No. 93 versus SSAP. No. 94. Interested parties' understanding is that SSAP No. 93 relates to debt and equity investments where the return on the investment is predominantly from tax credits and other tax benefits whereas SSAP No. 94 addresses tax credit "vouchers" that are purchased outright from any party, which are not considered investments (but instead represent receivables). To that end, we want to suggest the following edits to the SSAP No. 94 scope:

> "This statement establishes statutory accounting principles for state and federal tax credits that are purchased1 by the reporting entity without being ~~an~~ bond or equity investor in the entity from which the tax credit were purchased."

Recommendation:
NAIC staff recommend that the Working Group expose additional revisions described below to SSAP No. 93 and SSAP No. 94R. Staff also recommends that the Working Group expose changes to *SSAP No. 34—Investment Income Due and Accrued* and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, which detail miscellaneous changes which update the scope of each statement for the proposed updates to SSAP No. 93 and SSAP No. 94R. The following are key revisions to SSAP No. 93R and 94R are proposed for exposure:

- *SSAP No. 93R—Investments in Tax Credit Structures* – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
  - Various editorial changes to the admittance test described in paragraph 18 to clarify technical aspects of the assessment.
  - Addition of a Glossary of key terms at the end of the SSAP.
  - Revised guidance effective date to be 1/1/2025, applied prospectively without option to early adopt.
  - Added a new paragraph to the Impairment of Tax Credit Investments section to provide guidance on tax credit programs which allocate variable amounts of tax credits.
  - Clarified in footnote 4 that tax credit strips derived from tax equity investments are not an example of an investment structure exempt from the audit requirement.
  - Added disclosures for unused tax credits allocated from tax credit investments as these tax credits would not be within the scope of SSAP No. 94R disclosures.

- *SSAP No. 94R—State and Federal Tax Credits* – NAIC staff recommends the following revisions in response to comments, from interested parties, public comments and NAIC staff internal review:
  - Revised guidance effective date to be 1/1/2025 with early adoption permitted.
  - Added language to clarify that awarded tax credits (neither purchased nor allocated from an investment) are not within the scope of SSAP No. 94R.
  - Added commitment and contingency guidance to the Accounting and Disclosure sections.

- Other SSAPs – In response to the proposed revisions to SSAP Nos 93 and 94R, NAIC staff recommends the following:

- *SSAP No. 34—Investment Income Due and Accrued* – Staff proposes revisions to clarify that tax credits earned or purchased are not within the scope of SSAP No. 34.
- *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* – Staff proposes revisions which update paragraph 2 for the new tax credit investment language.

Interested parties' comment letter recommended revisions which would narrow the scope of the paragraph 18 admittance test to only tax credit investments which allocate non-transferable tax credit and prohibit the sale of ownership interests. NAIC staff did not revise the SSAP No. 93R draft for these recommendations but intends to continue working with industry to address their concerns that the new guidance may non-admit previously admitted tax credit investments.

Additionally, NAIC staff requests comments on the annual statement reporting categories for tax credit investment RBC. The current RBC categories are LIHTC Investment specific and are mapped to the real estate grouping.

Further discussion details are in the status section in agenda item 2022-14. NAIC staff appreciates the interested parties' comments and would like to continue discussions on these proposed revisions in the interim period.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-14 (Julie)	***SSAP No. 7—Asset Valuation Reserve and Interest Maintenance Reserve***	**14 – Agenda Item**	**Comments Received**	**IP – 14 ACLI – 26**

<u>*Summary:*</u>
The Working Group exposed this agenda item as a new SAP concept, with the intent to establish a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. Although revisions may be considered and adopted to allow focus on specific discussion aspects, ultimately, the movement of the accounting guidance to SSAP No. 7, and any revisions from the annual statement instructions when incorporating SAP guidance, is proposed to be captured as a new SAP concept with a corresponding issue paper to detail the revisions. The agenda item identifies discussion topics to be included in this project.

<u>*ACLI Comments:*</u>
The American Council of Life Insurers (ACLI) appreciates the continued thoughtful and timely attention the Statutory Accounting Principles Working Group is dedicating to this important topic.

ACLI is very appreciative and supportive of the IMR Technical Working Group. ACLI stands ready to continue working with the NAIC to ensure the most appropriate long-term treatment of the IMR can be applied and a company's surplus and financial strength are properly reflected, all while not disincentivizing the prudent management practices that are in the best interest of all.

We are supportive of efforts to capture guidance for the IMR and AVR in SSAP No. 7. We further appreciate NAIC staff's efforts to create an initial list of topics to be addressed, noting that the interconnectedness and complexity of the IMR and AVR will result in robust, detailed discussions at the Technical Working Group.

<u>*Interested Parties' Comments:*</u>
Interested parties support the comments made by the ACLI in its comment letter.

<u>*Recommendation:*</u>
NAIC Staff recommend that the Working Group establish a long-term project to capture accounting guidance for AVR and IMR in SSAP No. 7. NAIC staff notes that revisions will be impacted by the IMR Ad Hoc Group discussions and timeframe.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-15 (Julie)	**IMR and AVR Specific Allocations**	**15 – Agenda Item**	**Comments Received**	**ACLI – 27**

Summary:
The Working Group exposed this agenda item as a new SAP concept, to remove guidance from the Annual Statement instructions that permits the allocation of non-interest related losses to IMR. The proposed revisions intended to address situations that focused on the change in NAIC designations as the catalyst for reporting losses as AVR in situations in which investments were sold in response to known credit events before the designation downgrade was reflected (evidenced with PG&E on the wildfires and the recent regional bank failures) as well as the mortgage loan guidance that permitted impaired mortgage loan losses to be taken to IMR as long as they were sold before the loan was 90 days past due or in foreclosure.

ACLI Comments:
The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the above referenced exposure. The ACLI believes the exposure can essentially be separated into three components, all of which NAIC staff believes will result in a more correct allocation of gain/losses to IMR. Specifically, 1) where a mortgage loan has been sold at a loss while subject to a valuation allowance, 2) where an acute credit event occurred with the security sold at a loss prior to the event being reflected in CRP ratings or on the SVO feed, and 3) the current notch rule potentially allows inappropriate credit losses going to IMR. ACLI is supportive of ensuring the appropriate treatment of interest and credit related gains and losses and committed to working with NAIC to address regulator concerns.

Mortgage Loans Sold at a Loss While Subject to A Valuation Allowance

ACLI is supportive of the proposed IMR changes related to mortgage loans.

An Acute Credit Event Occurred But Is Not Yet Reflected in CRP Ratings/SVO Feed

ACLI appreciates the NAIC's concern that the current notching criteria for an IMR eligible gain/loss does not pick up situations where there is an acute credit event (e.g., wild fires and lawsuits related to PG&E or Silicon Valley Bank) and where an insurance company may want to exit security holdings at a loss, but where the acute credit even is not yet reflected in a CRP downgrade and/or the SVO feed.

Most insurance companies subject to IMR utilize the SVO feed for both risk-based capital purposes and IMR, and have an automated process to utilize the SVO feed where applicable (i.e., not all securities are included in the SVO feed at time or purchase and/or sale and therefore insurance companies have procedures to take the second lowest available CRP rating, or internal rating if CRP ratings do not exist at the time, that subsequently get automated).

While ACLI is supportive of what the NAIC is trying to achieve, the ACLI has struggled to think of a way to operationalize it. The concept of a "reasonable period of time" presents the following challenges:

- The concept itself is ambiguous, and even in a principles-based rule is difficult to operationalize,
- What is a reasonable period of time for a sale in January could be the remaining 11 months of the year, albeit with inter-quarter adjustments, but in December could need to be much shorter,
- Each sale in December, which could be a substantial number, would require insurance companies to keep their books open and potentially rerun and revise all internal and external reporting through their annual statement filing date.

- CRP ratings and/or the SVO feed could be delayed beyond even that period, requiring inter-year changes.

- Certain companies utilize CRP ratings directly, instead of the SVO feed, to more appropriately capture the second lowest CRP rating where the SVO feed does not appropriately capture.

Rather than support the "reasonable period of time" concept, ACLI proposes an alternative which it believes better captures the NAIC's goals.

Include realized capital gains(losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office designation at the end of the holding period is ~~NOT~~ different from its NAIC designation at the beginning of the holding period by one or less ~~more than one~~ NAIC designations. However, if the security sold also includes the following, it should not be included:

- Between the purchase and sale date there was an acute credit event (a known event that significantly impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of sale, where the resulting gain/loss from the sale was predominantly credit related.

The ACLI looks forward to working with the NAIC to more appropriately tailor this concept if needed, to achieve the NAIC objectives, and so it can be adopted so as to be effective as early as January 1, 2024, which may be the earliest it can be operationalized.

The Current Notch Rule Allows Inappropriate Credit Losses Going to IMR

Embedded within the proposed changes in this exposure is the concept of changing the term NAIC Designation to NAIC Designation Category, as can be understood by the chart below. Essentially, this drastically changes the granularity by utilizing the 20 NAIC Designation Categories versus the 6 NAIC Designations.

NAIC Designation	NAIC Designation Category
1	1A
	1B
	1C
	1D
	1E
	1F
	1G
2	2A
	2B
	2C
3	3A
	3B
	3C
4	4A
	4B
	4C
5	5A
	5B
	5C
6	6

The ACLI suspects this change was intended to more precisely allocate gains/losses to IMR and AVR. The ACLI notes several challenges with this approach.

Most importantly, such an approach may result in unintended consequences that could be concerning to regulators. This can best be illustrated with the following.

	1A	1B	1C	1D	1E	1F	1G	2A	2B	2C	3A	3B	3C	4A	4B	4C	5A	5B	5C
1A	0	-1	8	10	20	32	47	71	85	127	205	221	250	316	372	465	644	777	1367
1B		0	9	10	20	32	48	72	86	128	206	221	251	317	373	465	644	778	1367
1C			0	2	12	24	39	63	77	119	197	212	242	308	364	457	636	769	1359
1D				0	10	22	37	61	76	117	195	211	240	306	362	455	634	767	1357
1E					0	12	27	51	66	107	185	201	230	296	352	445	624	757	1347
1F						0	15	39	54	95	173	189	218	284	340	433	612	745	1335
1G							0	24	38	80	158	173	203	269	325	417	596	730	1320
2A								0	14	56	134	150	179	245	301	394	573	706	1296
2B									0	42	120	135	165	231	287	379	558	692	1281
2C										0	78	94	123	189	245	338	517	650	1240
3A											0	15	45	111	167	259	438	572	1162
3B												0	29	96	151	244	423	556	1146
3C													0	66	122	215	394	527	1117
4A														0	56	148	327	461	1051
4B															0	93	272	405	995
4C																0	179	312	902
5A																	0	133	723
5B																		0	590
5C																			0

Source: Average spreads by index rating of the Bloomberg US Corporate Investment Grade Index and U.S. High Yield - 1% Issuer Cap Index over 5 years (10/1/2018 through 9/19/2023); Aladdin

If a security was sold, going from a 1A (vertical axis) to a 1C (horizontal axis), the credit related component of its yield would increase approximately 8 basis points. In a sale where the risk-free rate also went up 3% or 300 basis points, the interest related component of the gain/loss would be approximately 37.5x (300/8) the credit related component. The proposal still results in imprecision for IMR eligibility, and may be especially troubling in a declining interest rate environment as gains would not go to IMR (the scenario that was most troubling to regulators when IMR was developed)

In summary, in a falling interest rate environment, gains may overstate a company's surplus or could be distributed (showing the same financial strength when the company now has a lower yielding portfolio). In a rising interest rate environment, losses would show decreased financial strength, when in fact a company would have a higher yielding portfolio. It is important to understand that the portion of any gain/loss attributable to interest and/or credit is essentially linked to three variables 1) credit spreads as articulated in the above table, which fluctuate over time 2) the change in risk-free rate, which also fluctuates over time and 3) where the security exists in the credit spectrum (e.g., represented by either the CRP rating, NAIC Designation, or NAIC Designation Category, where the spread change is not linear as one proceeds from higher ratings to lower ratings).

ACLI believes it is very important to carefully consider:

- Should the existing one-notch NAIC Designation rule be retained?
- Should it be several NAIC sub-categories?
- Should it be different for Investment Grade and Below Investment Grade Securities?
- Should gain losses be bifurcated between interest and credit related components?

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- If so, is there a simple way to calculate the bifurcated gains and losses to ensure consistency between companies and so that it can be automated?

Lastly, even if the exposed approach was deemed appropriate, there are additional significant operational issues:

- The SVO feeds are the primary source of data for calculating such IMR related gains/losses but the 20 NAIC categories are not included prior to the implementation of the new factors for risk-based capital.

- It would be impractical for insurance companies to retroactively apply this given their automated processes.

- Most companies do not have all CRP feeds to determine the second lowest CRP ratings.

ACLI strongly encourages any action beyond its alternative acute credit event proposal be addressed as part of the long-term project.

Recommendation:
NAIC Staff recommend that the Working Group adopt this agenda item, with modified revisions as suggested by interested parties for an effective date of Jan. 1, 2024. As this agenda item proposes revisions to the Annual Statement Instructions, it is recommended that this adoption be communicated via a blanks memo to the Blanks (E) Working Group so there is appropriate communication of the change in allocating IMR/AVR beginning with Jan. 1, 2024. The proposed adoption would incorporate the mortgage loan revisions as exposed and incorporated guidance for debt securities that directs AVR reporting if there is an acute credit event (known event) that negatively impacts the price of the security that has not yet been reflected in the CRP ratings / SVO feed at the time of the time of the sale where the resulting gain/loss was predominantly credit related.

Although NAIC staff supports the modified revisions suggested by interested parties to allow for timely implementation of the key changes for 2024, NAIC staff supports continued discussion on the allocation between IMR and AVR for debt instruments but believes this should occur as part of the long-term IMR project and with the involvement of the IMR Ad Hoc Group. Particularly, NAIC staff believes there should be further discussion on the use of 'more than one designation change' in determining IMR or AVR allocation for debt securities and how that should be applied with the expansion of NAIC designations from 6 to 20. NAIC staff highlights that all downgrades in NAIC designations reflect declines in credit quality. The current process, which only focuses on the designation number, and not the designation modifier, allows a security to have many levels of credit-quality declines before losses are taken to AVR and not IMR. Although some may indicate that the same approach was in practice prior to the expansion to 20 designations with NAIC modifiers, now it is more clearly apparent when a security has had credit declines.

Proposed Revisions for Adoption that Reflects the Interested Parties' Comments as Shaded:

1) **Mortgage Loans – Adoption as Exposed:**

IMR:
Mortgage loans where the realized gains (losses) more predominantly reflect interest-related changes. By default, mortgage loans that meet any of the following criteria shall not be considered to reflect interest-related losses. Realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or

- Interest is ~~NOT~~ more than 90 days past due, or

- The loan is ~~NOT~~ in process of foreclosure, or

- The loan is ~~NOT~~ in course of voluntary conveyance, or
- The terms of the loan have ~~NOT~~ been restructured during the prior two years.

AVR:
In addition, all gains (losses), net of capital gains tax, on mortgage loans where the realized gains (losses) more predominantly reflect non-interest-related changes. By default, mortgage loans that meet any of the following criteria shall be considered to reflect non-interest-related changes and realized gains (losses) from mortgage loans with these characteristics shall be reported in the AVR:

- Any mortgage loan sold/disposed with an established valuation allowance under SSAP No. 37, or
- Interest is more than 90 days past due, or
- The loan is in the process of foreclosure, or
- The loan is in course of voluntary conveyance, or
- The terms of the loan have been restructured during the prior two years

~~Would be classified as non-interest related gains (losses).~~

2) Debt Securities – Modified with IP Comments: (Changes from Exposure are Shaded.)

IMR:
Include realized capital gains (losses) on:

Debt securities (excluding loan-backed and structured securities) and preferred stocks ~~where the realized capital gains (losses) more predominantly reflect interest-related changes. By default, debt instruments~~ whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period~~, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument, areis~~ is ~~NOT~~ different from its NAIC designation at the beginning of the holding period by one or less ~~more than one~~ NAIC designations. ~~or NAIC designation category shall not be considered to reflect interest-related changes. Gains (losses) from these debt instruments shall NOT be reported in the IMR and shall be reported in the AVR Exclude any such gains (losses) exempt from the IMR.~~ However, if the security sold also includes the following, it should not be included in IMR:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

Shown Clean for Ease of Review:

Debt securities (excluding loan-backed and structured securities) and preferred stocks whose National Association of Insurance Commissioners (NAIC)/Securities Valuation Office (SVO) designation at the end of the holding period is different from its NAIC designation at the beginning of the holding period by one or less NAIC designations. However, if the security sold also includes the following, it should not be included in IMR:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

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AVR:
Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) ~~where the realized capital gains (losses) more predominantly reflect non-interest-related changes. By default, debt instruments~~ whose NAIC/SVO designation at the end of the holding period~~, or within a reasonable amount of time after the reporting entity has sold/disposed of the instrument,~~ is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation ~~or NAIC designation category~~ shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR ~~by more than one NAIC/SVO designation. The holding period is defined as the period from the date of purchase to the date of sale. For end of period classification, the most recent available designation should be used. For bonds acquired before Jan. 1, 1991, the holding period is presumed to have begun on Dec. 31, 1990.~~. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

Shown Clean for Ease of Review:

AVR:
Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding loan-backed and structured securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain/loss from the sale was predominantly credit related.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-16 (Julie)	**Schedule BA Reporting Categories**	**16 – Agenda Item**	**Comments Received**	**IP – 14**

Summary:
The Working Group exposed this agenda item as a SAP clarification to further define for consistency purposes the investments captured as non-registered private funds, joint ventures, partnerships or limited liability companies, or residual interests and reported based on the underlying characteristics of assets.

Interested Parties' Comments:
Interested parties recommend several edits to further clarify and define the investments that should be categorized as non-registered private funds, joint ventures, partnerships or limited liability companies or residual interests, based on the characteristics of the underlying assets.

Please see the related attachment with marked edits.

We do not recommend any changes to the language describing Non-Registered Private Funds, but we would like to comment on what is included in that section in response to the Working Group's request: in addition to private

funds which have been filed with the SVO and private funds which have not been filed with the SVO, there are certain fixed income instruments not included on schedule D or schedule B, consistent with the Annual Statement Instructions for that schedule.

Proposed Interested Parties' Edits to the Schedule BA Instructions from Separate Attachment:

Non-Registered Private Funds with Underlying Assets Having Characteristics of a Bond, Mortgage Loan or Other Fixed Income Instrument

Include: Fixed income instruments that are not corporate or governmental unit obligations (Schedule D) or secured by real property (Schedule B).

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income instrument that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0799999 and 0899999.

Any investments deemed by the reporting entity to possess the underlying characteristics of a bond or other fixed income investment that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 0999999, 1099999, 1199999, 1299999, 1399999 and 1499999.

Joint Ventures, Partnership or Limited Liability Company Interests with Underlying Assets Having the Characteristics:

Fixed Income Instruments

Include: Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans~~Leveraged Buy-out Fund~~.

~~A fund investing in the "Z" strip of Collateralized Mortgage Obligations.~~

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1599999 and 1699999.

Any investments deemed by the reporting entity to possess the underlying characteristics of fixed income instruments that has not been assigned an NAIC designation by the Securities Valuation Office (SVO) pursuant to the policies in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* for this category. Report these investments on Lines 1799999 and 1899999.

Common Stocks

Include: Venture Capital Funds or other underlying equity investments.

Real Estate

Include: Real estate development interest. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

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Mortgage Loans

Include: Mortgage obligations. Reporting should be consistent with the detailed property analysis appropriate for the corresponding risk-based capital factor for this investment category. If the requisite details are not available for reporting, report under "Other" subcategory.

Other

Include: Limited partnership interests in oil and gas production.

Forest product partnerships.

Investments within the Joint Venture and Partnership Interests category that do not qualify for inclusion in the "Fixed Income Instruments," "Common Stocks," "Real Estate" or "Mortgage Loans" subcategories.

~~Reporting should be consistent with the corresponding risk-based capital factor for this investment category (i.e., Other Long-Term Assets).~~

Residual Tranches or Interests with Underlying Assets Having Characteristics of:

Investment in Residual Tranches or Interests should be assigned to the subcategory with the highest underlying asset concentration. There shouldn't be any bifurcation of the underlying assets among the subcategories.

Include: Residual tranches or interests from securitization tranches and beneficial interests as well as other structures captured in scope of *SSAP No. 43R – Loan-Backed and Structured Securities* Investments in joint ventures, partnerships and limited liability companies captured in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* that represent residual interests or that predominantly hold residual interests.

This category shall also include residual interests or residual security tranches within investment structures that are not captured in scope of SSAP No. 43R or SSAP No. 48 but that reflect, in substance, residual interests or residual security tranches.

Fixed Income Instruments

Include: Investments with underlying collateral which include contractual principal and/or interest payments, excluding mortgage loans~~, if held individually, would be reported on *Schedule D – Part 1 – Long-Term Bonds*~~.

Common Stocks

Include: Investments with underlying collateral which are securities that represent a subordinate equity ownership.~~, if held individually, would be reported on *Schedule D – Part 2 – Section 2 – Common Stocks*~~

Preferred Stocks

Include: Investments with underlying collateral which is a security that represents ownership of a corporation and gives the holder a claim prior to the claim of common stockholders on earnings and also generally on assets in the event of liquidation.~~, if held individually, would be reported on *Schedule D – Part 2 – Section 1 – Preferred Stocks*~~

Real Estate

Include: Investments with underlying collateral which is defined as directly-owned real estate properties and single real estate property investments that are directly and

wholly-owned through a limited liability company, . ~~if held individually, would be reported on *Schedule A – Real Estate Owned*~~

Mortgage Loans

Include: Investments with underlying collateral which is secured by a mortgage on real estate., ~~if held individually, would be reported on *Schedule B – Mortgage Loans*~~

Other

Include: Items that do not qualify for inclusion in the above subcategories.

Recommendation:

NAIC staff recommends that the Working Group expose the agenda item, with the proposed modifications from interested parties, but with the continued proposal to combine the reporting lines for non-registered private funds to be included in the reporting lines for joint ventures, partnerships and limited liability company interests. (This edit was previously included in the Schedule BA reporting changes.) NAIC staff note that there is no SSAP for non-registered private funds and that they would be captured in SSAP No. 48. It is also noted that there is no clear distinction on what would be captured as a non-registered private equity fund and not a joint venture. On the proposed descriptions, NAIC staff notes that some of the descriptions are fairly broad, so looking for additional regulator and industry feedback during the exposure period on whether more specification is needed.

NAIC staff has had a conversation with key industry representatives and the opposition on the proposal to combine non-registered private funds with other SSAP No. 48 items, and it was identified that there is a current industry interpretation for including "warehouse loans" within the non-registered private equity fund line. It was communicated that these loans were previously included on this line on Schedule BA and when that line was revised to reflect 'private equity funds' the inclusion of these warehouse loans in that reporting line continued. This conversation noted that these warehouse loans are not in scope of SSAP No. 48, but the reporting as non-registered private funds allows them to be classified by the underlying interests (mortgage loans) and obtain the RBC charge that is more in line with mortgage loans.

NAIC staff has the initial impression that these warehouse loans are collateral loans and should be accounted for and reported in accordance with *SSAP No. 21R—Other Admitted Assets* with reporting in the collateral loan reporting lines. As there has been a desire for more granular reporting of collateral loans, for ease of identification of the type of collateral that secures the loan, a new agenda item has been proposed to report collateral loans by type of collateral. NAIC staff believes that this approach, especially if there is subsequent mapping to RBC, will address the concern of not having a dedicated line for these investments on Schedule BA.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-17 (Julie)	**Short-Term Investments**	**17 – Agenda item**	**No Comments**	**IP – 15**

Summary:

The Working Group exposed revisions as a new SAP concept to further restrict the investments that are permitted for cash equivalent or short-term investment reporting.

To correspond with the bond project, this agenda item proposes an effective date of Jan. 1, 2025. Additionally, subsequent blanks reporting changes will be considered to modify the cash equivalent and short-term reporting lines accordingly. This item contains revisions to further restrict the investments that are permitted to be included in cash or shorter-term investment reporting.

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Interested Parties' Comments:
Interested parties have no comments on this item.

Recommendation:
NAIC staff recommend that the Working Group adopt the revisions exposed to *SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments* to further restrict the investment that are permitted for cash equivalent and short-term reporting with an effective date of Jan. 1, 2025.

With the revisions, the following investments will be excluded from cash equivalent / short-term reporting: (Items shaded are explicitly new with the agenda item.)

a. Asset-backed securities captured in scope of SSAP No. 43R.

b. All investments that are reported on Schedule BA, including but not limited to:

   i. All debt securities that do not qualify as bonds in scope of SSAP No. 21R.

   ii. Collateral / Non-Collateral loans captured in scope of SSAP No. 21R.

   iii. Working capital finance investments in scope of SSAP No. 105R.

   iv. Surplus notes in scope of SSAP No. 41R

c. Mortgage loans captured in scope of SSAP No. 37.

d. Derivative instruments in scope of SSAP No. 86 or SSAP No. 108.

e. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist.

NAIC staff recommend that the Working Group direct NAIC staff to sponsor a blanks proposal to revise the reporting lines accordingly and to draft an issue paper to detail the revisions for historical reference.

Ref #	Title	Attachment #	Agreement with Exposed Document?	Comment Letter Page Number
2023-22 (Robin)	**Actuarial Guideline 51 and Appendix A-010 Interaction**	**18 – Agenda item**	**No Comments**	**IP– 16**

Summary:
On August 13, the Working Group exposed revisions to *SSAP No. 54R—Individual and Group Accident and Health Contracts* to clarify that gross premium valuation (under Appendix A-010) and cash flow testing (under AG 51) are both required, if indicated. In addition, the Working Group directed staff to provide formal notice of the exposure to the Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group.

Interested Parties' Comments:
Interested parties have no comments on this item.

Recommendation:
NAIC staff recommends adoption of the exposed revisions. While NAIC staff previously noted that they were considering recommending an expansion of the exposed illustration, subsequent conversations with regulatory actuaries indicated that it was not necessary. The Long-Term Care Actuarial (B) Working Group and the Valuation Analysis (E) Working Group staff support have noted that the Working Groups do not intend to provide formal comments.

The following 2 items will be addressed in a separate hearing packet - Hearing 2 as comments are pending in mid-November.

1. INT 23-04: Life Reinsurance Liquidation Questions [Comments pending - Hearing 2]
2. Ref #2023-23: Residuals in Preferred Stock and Common Stock [Comments pending - Hearing 2]

The comment letters are included in Attachment 19 (31 pages).

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2023/12-1-23 Fall National Meeting/Hearing/00 - 12-2023 - SAPWG Hearing Agenda.docx

Statutory Accounting Principles (E) Working Group
Meeting Agenda
December 1, 2023

A. <u>Consideration of Maintenance Agenda – Pending List</u>

1. Ref #2023-24: ASU 2016-13, Measurement of Credit Losses on Financial Instruments, and Other Related ASUs
2. Ref #2023-25: ASU 2023-03, Amendments to SEC Paragraphs
3. Ref #2023-26: ASU 2023-06, Codification Amendments in Response to the SEC's Disclosure Update
4. Ref #2023-27: ASU 2023-04, Amendments to SEC Paragraphs—Cryptocurrency
5. Ref #2023-28: Collateral Loan Reporting
6. Ref #2023-29: IMR / AVR Preferred Stock
7. Ref #2023-30: Admissibility Requirements of Investments in Downstream Holding Companies
8. Ref #2023-31: Model 630 Mortgage Guaranty Insurance

Ref #	Title	Attachment #
2023-24 (Wil)	**ASU 2016-13, Measurement of Credit Losses on Financial Instruments, and Other Related ASUs**	**A – Form A**

Summary:
In June 2016, the Financial Accounting Standards Board (FASB) issued *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (CECL)* to change impairment and credit loss accounting guidance for U.S. Generally Accepted Accounting Principles (GAAP) from an "incurred loss" methodology to an "expected loss" methodology. These changes were made primarily in response to the 2008 Great Recession in which companies were anticipating significant credit losses but were unable to record these losses as the probable threshold had not yet been met. In response to this issue, FASB established the Financial Crisis Advisory Group (FCAG) to advise FASB on improvements to financial reporting in response to the Great Recession. The main recommendation from the FCAG to FASB was to investigate improvements to impairment and credit loss guidance through the development of an alternative to the "incurred loss" methodology.

Based on this recommendation FASB developed CECL which replaces the "incurred loss" methodology and provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. CECL affects all entities holding financial assets that are not accounted for at fair value through net income, including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance recoverables and any other financial assets not specifically excluded that have the contractual right to receive cash. The expected loss methodology requires expected losses to be recognized when assets are purchased. CECL also replaced the other-than-temporary impairment ("OTTI") concept that has historically applied to available-for-sale ("AFS") debt securities, now requiring impairments to be recorded as an allowance for credit losses.

The main purpose of statutory accounting principles (SAP) is to address the concerns of regulators, primarily as it relates to assessing solvency, who are the primary users of statutory financial statements. To do so, SAP stresses measurement of a company's ability to pay claims in the future and adopts reasonably conservative principles of accounting to ensure that insurance companies' capital and surplus is reflective of funds in excess of policyholder liabilities which are available to pay claims should the assets backing reserves become insufficient. Risk-based capital then provides a basis for evaluating the sufficiency of this capital and surplus amount in the context of a

particular company's risk-taking activities, including its exposure to credit risk. Capital requirements are calibrated to ensure sufficiency of capital even during periods of economic uncertainty and distress, within the intended level of statistical safety.

The statutory framework has long incorporated concepts that incorporate a prospective view of future credit risk that historical GAAP has not. The first is the Asset Valuation Reserve (AVR). AVR requires life insurance companies to establish a reserve to account for future impairment losses on all assets (with some minor exceptions). While this is much more formulaic than the allowance required under CECL, it is intended to accomplish the same objective. The second is that *SSAP No. 26R—Bonds* requires insurance companies that do not maintain AVR to report bonds at fair value if the bond is not considered high-quality (NAIC designations 3 to 6). While this requirement does not result in credit loss reserves, it does have a similar effect by requiring non-life companies to report lower quality bonds at fair value or convert previously highest or high-quality bonds to fair value in the event of credit quality degradation. Further, the RBC formula factors in the credit risk of each individual asset in calculating the amount of capital required to be held. These mechanisms incorporate an expectation of future credit losses. Therefore, while GAAP has just begun recognizing an expectation of future credit losses with the advent of CECL, the statutory framework has recognized and incorporated future credit loss potential for decades.

Although the statutory framework has long considered future credit losses, it is worth assessing CECL to determine whether it could introduce any improvements to the existing statutory framework if adopted. Based on the review performed, Staff does not recommend adoption of CECL for the following reasons:

- CECL is a framework that incorporates significant judgement and forecasting by the company to establish credit reserves. The assumptions and data that go into these estimates are required to be company-specific, reflecting the company's reasonable and supportable forecasts of future economic conditions. It also is required to consider current economic conditions, which results in sensitivity in the reserve to changing economic conditions. The statutory framework has historically limited insurer judgment in estimating reserves. Where judgment has been allowed, there are typically mechanisms in place to closely regulate and assess those assumptions for reasonableness. Further, loss reserves and RBC are generally set to already incorporate downside risk within a desire level of statistical safety. As the framework already incorporates an expectation of adverse experience, it is not particularly volatile with changes in economic conditions. It is intended to reflect risk through the economic cycle, not at a point in time. As a result of both the volatility and judgment involved, the CECL standard does not fit the overall design of the statutory accounting and solvency monitoring framework.
- CECL does not provide a specific method that companies must use to make expected loss estimates but is instead defined by several results-oriented principles. While this does allow companies the flexibility to adopt the forecasting process that best fits their investments and company, it also means that there will be a significant diversity in the methods used to calculate expected credit losses under CECL. Such optionality is generally not considered compatible with SAP and would also place a significant burden on regulators and examiners to assess the variety of forecasting methods utilized by insurance companies.
- The majority of insurance company investments are debt securities which are generally classified as Available for Sale (AFS) for GAAP reporting. Investments classified as AFS are held at fair value with changes in fair value recorded through other comprehensive income. The portion of the CECL standard that applies to AFS securities is markedly different than what applies to debt securities held at amortized cost. Unlike GAAP, statutory accounting requires the majority of debt securities to be held at amortized cost. As a result, using a CECL standard for statutory accounting would be significantly more expansive and impactful to a statutory balance sheet than under GAAP and would result in a significantly different application of CECL between statutory accounting and GAAP, even if the identical standard were adopted.
- CECL is a complex standard that requires companies to either develop internal models or to contract an external solution to support calculating a reserve. GAAP does allow companies to elect to hold their investments under the fair value option, in which case CECL is not required. This may be an appealing option for some insurers, particularly smaller ones that wish to avoid the operational cost of CECL. The fair value option does not exist for statutory accounting. As such, adopting CECL would likely force

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insurers to incur the cost of CECL that would not otherwise be necessary for their GAAP financial statements.

- Similarly, many insurance companies do not prepare GAAP financial statements. This means that they would need to learn about and adopt CECL for the first time for their statutory financial statements if CECL were to be adopted.
- As RBC has its own methodology for incorporating credit risk, any CECL allowance would need to be reversed in the RBC formula in order to avoid double counting expected losses. This would largely eliminate any benefit of CECL to regulators' solvency monitoring efforts.

As a result of these factors, NAIC Staff does not recommend adopting CECL for statutory accounting.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to reject ASU 2016-13, and five other ASUs issued by FASB to amend CECL, within *INT 06-07: Definition of Phrase "Other Than Temporary"* and fifteen applicable SSAPs which are detailed within the Form A. Additionally, a previous agenda item, Ref #2016-20, was started on this topic and last exposed for comment on Aug. 4, 2018. That agenda item was reviewed by NAIC staff, and we recommend it be formally disposed of and replaced by agenda item 2023-24.

Ref #	Title	Attachment #
2023-25 (Wil)	**ASU 2023-03, Amendments to SEC Paragraphs**	**B – Form A**

Summary:
In July of 2023 FASB issue. *SU 2023-03, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022, EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*, which amends SEC paragraphs from the Accounting Standards Codification based on the issuance of SEC Staff Accounting Bulletin (SAB) 120, the March 24, 2022 EITF meeting SEC staff announcement, and SAB Topic 6.B "Accounting Series Release No. 280 — General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. This ASU updates various aspects of SEC guidance on stock compensation and equity-based payments.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *Appendix D—Nonapplicable GAAP Pronouncements* to reject ASU 2023-03 as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are not applicable for statutory accounting purposes.

Ref #	Title	Attachment #
2023-26 (Wil)	**ASU 2023-06, Codification Amendments in Response to the SEC's Disclosure Update**	**C – Form A**

Summary:
In August of 2023 FASB issued *ASU 2023-06, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, which provide several updates to disclosures which are intended to allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the SEC's requirements.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-06, Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are not applicable for statutory accounting purposes.

Ref #	Title	Attachment #
2023-27 (Jake)	**ASU 2023-04, Amendments to SEC Paragraphs—Cryptocurrency**	**D – Form A**

Summary:
In August 2023, FASB issued *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121, which amends SEC paragraphs from the Accounting Standards Codification for the issuance of SEC Staff Accounting Bulletin (SAB) 121* which provides guidance on accounting for obligations to safeguard Crypto-Assets an entity holds for its platform users.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to Appendix D—Nonapplicable GAAP Pronouncements to reject ASU 2023-04, Amendments to SEC Paragraphs as not applicable to statutory accounting. This item is proposed to be rejected as not applicable as the ASU is specific to amendment of SEC paragraphs, which are generally not applicable for statutory accounting purposes.

Ref #	Title	Attachment #
2023-28 (Julie)	**Collateral Loan Reporting**	**E – Form A**

Summary:
This agenda item has been developed to propose an expansion of reporting for collateral loans on Schedule BA to enable regulators the ability to quickly identify the type of collateral in support of admittance of collateral loans in scope of *SSAP No. 21R—Other Admitted Assets*. This agenda item has been drafted in response to comments that the current reporting detail on Schedule BA does not provide sufficient clarity on the type of collateral used in support of admittance of collateral loans. Furthermore, with the adoption of agenda item 2022-11, the statutory accounting guidance has been clarified that the collateral must reflect a qualifying investment, meaning that it would qualify for admittance if held directly by the insurer. This amendment further clarified that collateral that represents an investment in scope of *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* or *SSAP No. 97—Investments in Subsidiary, Controlled or Affiliated Entities* is required to be audited consistent with the admittance requirements of those SSAPs.

This agenda item proposes new disclosure requirements in SSAP No. 21R for collateral loans. The new disclosure requirement is proposed to be satisfied by an expansion of the reporting on Schedule BA, so that the collateral loans are separated by the type of collateral investment that secures the loan. Additionally, a new aggregated data-captured note is proposed to identify the admitted and nonadmitted collateral loans by the type of collateral that secures the loan.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose this agenda item with proposed revisions to incorporate a new disclosure to SSAP

No. 21R, for initial reporting as of year-end 2024, and to sponsor a blanks proposal for a new data-captured disclosure and to expand the reporting lines on Schedule BA to separate collateral loans by the type of collateral that secures the loan. NAIC staff recommends that the Working Group direct a corresponding blanks proposal to allow for concurrent exposure. (NAIC staff requests comments from industry on whether any of the proposed reporting lines can be combined.)

Ref #	Title	Attachment #
2023-29 (Julie)	**IMR / AVR Preferred Stock**	**F – Form A**

Summary:
This agenda item has been developed to update guidance for the Interest Maintenance Reserve (IMR) and the Asset Valuation Reserve (AVR) in the Annual Statement Instructions for perpetual preferred stock, which includes SVO-Identified Preferred Stock ETFs. The existing IMR/AVR guidance is based on measurement of preferred stock based on NAIC designation. However, statutory accounting revisions effective in 2021 revised the measurement method for perpetual preferred stock to always reflect fair value, not to exceed any currently effective call price, regardless of NAIC designation. Furthermore, with dedicated reporting lines established to separate redeemable and perpetual preferred stock, the reporting of NAIC designations was revised and no longer references an “RP” or “P.” These revisions were incorporated as perpetual preferred stock is more akin to an equity instrument, as it is not required to be redeemed by the issuing entity or at the option of the investor. At the time of this measurement method change, corresponding revisions to the IMR/AVR instructions were not reflected. As such, the existing IMR/AVR guidance directs realized gains/loss treatment for all preferred stock based on the NAIC designation during the holding period and refers to the prior designation classifications.

This agenda item proposes to clarify that realized gains and losses on perpetual preferred stock shall not be added to the IMR, regardless of NAIC designation, and shall follow the same concepts that exist for common stock in reporting realized gains/losses to the AVR. This agenda item does not propose to change the concepts for redeemable preferred stock, which is more akin to a debt instrument, but proposes to clarify the guidance so application based on the type of structure is clear. Separate reporting of perpetual preferred stock and redeemable preferred stock is already included on Schedule D-2-1: Preferred Stock.

For the revisions proposed in this agenda item, the guidance for redeemable preferred stock will not be revised and will continue to classify realized gains/losses between the IMR and AVR based on NAIC designation. This guidance indicates that if the designation was a 4-6 at any time during the holding period, the realized gain or loss would go to AVR as non-interest related gains or losses. This agenda item does not intend to confirm that the allocation approach for redeemable preferred stock is appropriate and is strictly focused on ensuring that the current annual statement instructions for IMR/AVR corresponds with the current accounting and reporting guidance for perpetual preferred stocks. As detailed in the recommendation, discussion on whether use of NAIC designation for redeemable preferred stock is appropriate is proposed to occur as part of the long-term IMR project.

Recommendation:
NAIC staff recommend that the Working Group move this item to the active listing, categorized as a SAP clarification and expose proposed revisions to the annual statement instructions to remove the guidance that directs all preferred stock to be allocated between IMR/AVR based on NAIC designation. This agenda item proposes new guidance that corresponds to the accounting and reporting differences for redeemable and perpetual preferred stock, with all perpetual preferred stock being treated as an equity instrument similar to common stock. With this approach, all unrealized gains or losses on perpetual preferred stock will reverse to realized gains or losses in the AVR formula. The revisions also clarify that SVO-Identified Preferred Stock ETFs shall be treated as perpetual preferred stock (equities) as that is consistent with the guidance in *SSAP No. 32R—Preferred Stock*.

Ref #	Title	Attachment #
2023-30 (Jason)	**Admissibility Requirements of Investments in Downstream Holding Companies**	**G – Form A**

Summary:
This agenda item is the result of regulator comments received on the existing guidance in *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*, paragraph 24, and is intended to update the language in paragraph 24 on audits and admissibility to better align with guidance in paragraphs 26 and 27 on the look-through methodology. The current SSAP No. 97, paragraph 24 guidance states "if the downstream noninsurance holding company does not meet the requirements of paragraph 26, audited GAAP financial statements, as described in paragraph 23, are required for the downstream noninsurance holding company and its SCA and non-SCA investments in order for the investment in the downstream noninsurance holding company to be classified as an admitted asset."

The issue with the existing paragraph 24 guidance is that as it summarizes other guidance it could be perceived as contradicting guidance provided in paragraph 27 related to the "look through" process. This process allows admitting audited investments in entities owned by an unaudited downstream noninsurance holding company SCA entity.

Recommendation:
NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 97—Subsidiary, Controlled and Affiliated Entities* to revise paragraph 24 language to better align it with the existing guidance provided in paragraph 27, as illustrated in the agenda item.

Ref #	Title	Attachment #
2023-31 (Robin)	**Model 630 Mortgage Guaranty Insurance**	**H – Form A**

Summary:
This agenda item addresses updates to the *Mortgage Guaranty Insurance Model Act* (Model #630) which was adopted by NAIC Executive and Plenary in August 2023. Model #630 is excerpted in *Appendix A-630 Mortgage Guaranty Insurance* which is referenced in *SSAP No. 58—Mortgage Guaranty Insurance*. In addition, SSAP No. 58 includes some excerpts from Model #630 regarding contingency reserves.

The updates to Model #630 were part of a multiyear project by the Mortgage Guaranty Insurance (E) Working Group which began in November 2012. The project originally considered updating the capital requirements for mortgage guaranty insurers, but ultimately determined to focus on updating the model law. The updates to Model #630 were primarily drafted in 2022 and 2023.

This agenda item will review the new model for potential updates to SSAP No. 58 and Appendix A-630, with a focus on accounting and reporting issues. Although the model law was expanded, most of the key accounting related provisions only have minor updates. As part of this review some of the summary conclusion, general section which is descriptive of the mortgage industry is also proposed to have minor updates.

Recommendation:
NAIC staff recommends that the Working Group move this to the active listing and expose the intent to review Model #630 for incorporation into SSAP No. 58 and Appendix A-630 as applicable. Because there are less than ten mortgage guaranty insurers, and they are concentrated in the states of North Carolina,

Pennsylvania and Wisconsin, NAIC staff requests comments on the proposed effective date of the AP&P updates. Initial feedback indicates that the earliest that the Model #630 revisions could be applicable in the affected states would be January 1, 2025, or later. NAIC staff is hesitant to recommend adoption of revisions to the AP&P Manual prior to adoption by the primary state regulators of the mortgage guaranty insurers.

B. <u>Consideration of Items on the Active Maintenance Agenda</u>

1. Ref #2023-03: New C-2 Mortality Risk Note

Ref #	Title	Attachment #
2023-03 (Robin)	**New C-2 Mortality Risk Note**	**I – Form A**

Summary:
This agenda item was introduced at the 2023 Spring National Meeting to address a project of the Life Risk-Based Capital (E) Working Group, which intends to update its C-2 mortality risk charges to assign the same factors to group permanent life as individual permanent life for policies with and without pricing flexibility.

The agenda item initially proposed a new financial statement note to provide the development of net amounts at risk in the categories needed for the Life C-2 mortality risk charges. The categories are designed to create a direct link to a financial statement source, and accompanying Life RBC C-2 mortality risk updates. An annual statement blanks proposal 2023-09BWG – Add a new financial statement Note 37, was simultaneously exposed as the Life Risk-Based Capital (E) Working Group, recommended year-end 2023 as the effective date.

On May 16, 2023, the Statutory Accounting Principles (E) Working Group reviewed industry comments which noted concerns with having the information in the audited notes and concerns with possible reporting redundancy. The Working Group deferred this item and referred the comments received to the Life Risk Based Capital (E) Working Group.

The prior blanks proposal of 2023-09BWG was withdrawn at the November 7, Blanks (E) Working Group meeting. It was replaced by 2023-15BWG which was developed with the input from industry and Life Risk-Based Capital (E) Working Group staff. The replacement proposal 2023-15BWG, was exposed on November 7, recommends a general interrogatory instead of an annual statement note.

Recommendation:
NAIC staff recommend moving this agenda item to the disposed listing without statutory revisions. Industry worked with the American Academy of Actuaries, NAIC staff from this Working Group, the Blanks (E) Working Group and the Life Risk-Based Capital (E) Working Group to develop a replacement proposal (2023-15BWG) which does not have any SSAP revisions.

C. <u>Any Other Matters</u>

a. Review of U.S. GAAP Exposures (Jason - Attachment J)

The attachment details the items currently exposed by the FASB. Comments are not recommended at this time – NAIC staff recommend review of the final issued ASU under the SAP Maintenance Process as detailed in *Appendix F—Policy Statements.*

b. Life Actuarial (A) Task Force Coordination Memo (Robin - Attachment K)

The memo from the Life Actuarial (A) Task Force includes a detailed listing of the amendments made to the *Valuation Manual* by the Life Actuarial (A) Task Force since the **August 2022 NAIC Summer National**

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Meeting as part of the coordination process. The amendments were adopted by the Life Insurance and Annuities (A) Committee on. No items were identified that require Working Group action. No new or revised Models

- Revisions to two actuarial guidelines
- Other listed updates to the *Valuation Manual*

c. IAIS Audit and Accounting Working Group (AAWG Update) – (Julie)

NAIC staff are monitoring many workstreams related to climate disclosures, including application papers to Insurance Core Principles (ICP) 14 (Valuation), 15 (Investments) and 16 (Enterprise Risk Management) as well as monitoring the Climate Risk Subgroup (CRSG). NAIC staff (Julie Gann) is drafting an initial segment of a discussion paper for the CRSG focusing on climate disclosure constraints, including litigation risk and safe harbors. Broad topics planned include: 1) availability of data, 2) data quality, 3) volume/scale of disclosures, 4) public disclosure, group disclosure and individual reporting level – local perils, and 5) litigation risk and the US SEC Safe Harbor. Input from regulators and industry on themes to address can be submitted to Julie Gann by Dec. 5, 2023.

Comment Deadline for Exposures is **Feb. 9, 2024,** for all exposures except **agenda item 2019-21** (SSAP No. 21R for revisions addressing non-bond debt securities and guidance for residual interests) **which has a comment deadline of Jan. 22, 2024**.

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